



State of Utah

Department of  
Natural Resources

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*Executive Director*

Division of  
Oil, Gas & Mining

MARY ANN WRIGHT  
*Acting Division Director*

OLENE S. WALKER  
*Governor*

GAYLE F. McKEACHNIE  
*Lieutenant Governor*

January 11, 2005

TO: Mary Ann Wright, Acting Director

THRU: Mark Mesch, Acting Associate Director of Mining *MM*

THRU: Daron R. Haddock, Permit Supervisor *DRH*

FROM: Paul Baker, Reclamation Biologist *PB*

SUBJECT: Meeting to Discuss Bonding, Moab Salt LLC, Cane Creek Mine, M/019/005, Grand County, Utah

*M. A. Wright see attached notes of concern.*

Purpose of Meeting: To discuss alternative options for bonding the Cane Creek Potash Mine.

Location of Meeting: Division Office.

Time of Meeting: January 6, 2005, 10:00 to about 11:30 AM

Participants: James Whyte, Bob Jornayvaz, and Blaine Rawson representing Moab Salt (Intrepid); Daron Haddock, Mark Mesch, Doug Jensen, and Paul Baker, representing Oil, Gas and Mining (Division)

During this meeting, we discussed ways to bond for reclamation of the Cane Creek Potash Mine using some combination of a contract with the Board of Oil, Gas and Mining, collateral in the form of land, and an escrow account into which Intrepid would make deposits for several years and which would be allowed to grow until it reached the amount needed for reclamation. Although the Division mentioned the possibility of keeping one or more sureties as bond to cover some of the reclamation liability, Intrepid does not want to keep these sureties. They feel that money currently being paid to surety companies could be better utilized and should be made available for actual reclamation.

Prior to the meeting, the Division received correspondence from Intrepid with some details of a bonding proposal which includes elements of a contract with the Board of Oil, Gas and Mining combined with an escrow account.



Page 2 of 3  
M/019/005  
Meeting Memo  
January 11, 2005

Steve Schneider, the Oil and Gas Audit Manager, reviewed the information and determined Intrepid fails the self bonding qualification ratio normally used by the Division and the Board. The people representing Intrepid requested that the Division look at the auditing methods and consider whether it would be possible to use a fair market value (FMV) method rather than generally accepted accounting principles (GAAP). The Division said it would consider this request. Intrepid also agreed to supply more complete financial information but asked if it could be kept confidential. The Division representatives said they would check the rules and GRAMA requirements to see if this could be done.

Intrepid owns two parcels of unencumbered land near Moab which could potentially be used as collateral for reclamation. Intrepid will supply the Division with appraisals of this land, and the Division will look at using this land as security in combination with the board contract and an escrow account.

OGM cannot do this. mhw

→ The other part of Intrepid's proposal is to establish an escrow account upon which they could draw for reclamation funds. There would be an initial deposit of \$600,000 followed by monthly deposits of \$18,725 through 2014 after which the account would be allowed to grow until reaching the amount estimated to be needed for reclamation. This fund would be managed by a professional money manager, and it would go into diverse investments, such as stocks, bonds, money market funds, etc. At a rate of 5.5 percent, the amount currently estimated to be needed for reclamation would be attained in 2022.

The Division escalates reclamation costs each year depending on inflation, so the amount needed for reclamation in 2022 will be greater than the current estimate. Although the exact escalation figure is not known, a reasonable estimate is three percent annually. Intrepid agreed to use this figure and to revise their bond funding model.

"Correct" mhw

Although Intrepid would want to use the money in the escrow account to do reclamation work, the Division would not be able to release money until corresponding reclamation was completed. Normally, an operator completes a major phase of reclamation before requesting partial release, but to facilitate release of the money that had been put aside for reclamation, the Division could release smaller amounts as portions of the reclamation were completed.

Since the operator is proposing a board contract, it is ultimately the board's decision whether to accept the operator's proposal; however, the operator

Page 3 of 3  
M/019/005  
Meeting Memo  
January 11, 2005

would like the Division's endorsement before approaching the Board with a specific proposal. The Division personnel agreed to discuss the proposal among themselves, with Steve Schneider, and with Mary Ann Wright, Acting Director. Following these internal discussions, the Division will contact the operator to schedule another meeting.

In summary, Intrepid agreed to:

1. Revise the bond funding model to include a three percent annual escalation for the bond amount.
2. Provide the Division with appraisals of its properties.

The Division agreed to:

1. Consider whether FMV accounting methods could be used to determine if Intrepid qualifies for a Board Contract.
2. Decide if financial information can be protected as confidential under GRAMA.
3. Hold internal discussions to examine the different elements of the bonding methods and decide if the Division could support some combination of these elements in a proposal before the Board.
4. Contact the operator to schedule another meeting.

PBB:jb  
cc: Minerals File  
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